

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes
Bill Leonard, Member
State Board of Equalization*

August 6, 2007

QUOTE OF THE WEEK

“Society in every state is a blessing, but government, even in its best state, is but a necessary evil; in its worst state an intolerable one...” --- Thomas Paine

For midweek updates, check out the Leonard Blog: <http://www.billleonard.org/>

UNDER THE DOME

*****No Balanced Budget Without More Cuts*****

Senator Tom McClintock (R- Thousand Oaks) pointed out in a floor speech that rather than the \$700 million deficit the majority Democrats claim would result from their plan, the reality is more like \$2 billion cash shortfall this year, and an additional \$1 billion of future debt. From the Governor's May Revise, which I do not believe was changed much by the agreement that passed the Assembly, the projected (hoped for) Budget-year revenue is \$101.2 billion with proposed budget-year expenditures of \$103.7 billion. We are spending more than \$2 billion than we will have under this plan before the start of next year. Obviously do not try this at home. It is only the carry-over reserves from last year that allow the claim of a balanced budget that also has a reserve -- and this is based on the sale of bonds, not prior year revenue.

So to have a budget we could say with some confidence is balanced, we would need to cut more like \$3 billion from General Fund spending. McClintock pointed out how non-draconian these cuts would be considering that even if we cut \$3 billion from the current proposal we will still be spending \$8 billion more than we spent two years ago -- and \$22 billion more than we spent in Gray Davis's last budget just four years ago.

http://www.carepublic.com/news.html?news_id=204&start=0&category_id=2&parent_id=2&arcyear=&arcmonth

The California Taxpayers Association site has a nice discussion of some of the near-term threats to state revenue, budget games, and the list of the cuts the Senate Republicans are looking for:

<http://www.caltax.org/caltaxletter/pdf/080307.pdf>

*****Voting Integrity?*****

Secretary of State Debra Bowen has decided that some electronic voting machines cannot be used because they are not completely secure from hacking. If there is such concern about nefarious interference with the outcome of our elections, where is the demand for voters who appear in person to show identification to prove they are who they say before casting a ballot? Or even showing such identification to register to vote in the first place? That is common sense if you really care about making sure our election votes are valid.

AROUND THE NATION

*****Tax Folly*****

Out of Michigan is a report on the results of joining the Streamlined Sales Tax Project. In 1992 the U.S. Supreme Court ruled that the sales and use taxes among the states were too varied to be considered interstate commerce. That meant states could not compel out of state businesses to collect sales tax from their customers to remit back to the states the customers live in. This is why Internet and catalog sales are largely free of sales tax. Here in California, under the law we are required to keep track of these purchases and pay the state use tax, although few do so. The Streamlined Sales Tax Project is an agreement between some states to conform their sales tax laws to each other so that businesses in member states are able to voluntarily collect sales tax from customers living in other states that are part of the SST. California did not join the group and Michigan shows us why.

A Michigan tax official testified that Michigan is gaining between \$8 and \$11 million from non-Michigan retailers that are voluntarily collecting sales tax from customers in the 22 states that have joined the SST. However, the state is losing almost double that -- \$18 million a year because in order to conform to other states' tax laws Michigan had to stop taxing certain items. Now there is pressure to reinstate those taxes to close Michigan's Budget gap.

<http://www.detnews.com/apps/pbcs.dll/article?AID=/20070727/POLITICS/707270350&template=printart>

A few years ago when we were debating whether California should join the group, a California Research Bureau study found 47 different sections of California law that would have to be changed to conform to the laws in the other SST member states. For instance, under SST no district taxes are allowed, which means that a temporary quarter cent local tax for a one time purpose like a highway would have to be repealed or become a statewide tax increase.

Michigan's experience is showing us the futility of the SST enterprise. Some Michigan lawmakers want to figure out a whole new way of taxing items purchased over the Internet. This is more folly. Absent setting up a police state, there is no cost-effective way of enforcing a use tax, which turns hundreds of thousands of ordinary citizens into criminals. A far better approach would be to make the first \$10,000 in out of state purchases exempt from use tax and instead focus the state's resources on enforcing the use tax on big ticket items.

ISSUE FOCUS

*****Health Care Wishes*****

The OpinionJournal's Best of the Web Today cited a story from the London Guardian describing the plight of Olive Beal. The Guardian says that Mrs. Beal "finds it difficult to hear with her five-year-old analogue [hearing] aid and needs a digital version that cuts out background noise and makes conversation easier." She sought help from the local office for Britain's National Health Service and was told that the new hearing aid was possible, although it would take more than 18 months on the waiting list. Once those 18 months pass, Mrs. Beal will be 110 years old, but as she notes, "I could be dead by then." The OpinionJournal snarkily encourages her to take comfort in the fact that the hearing aid is free. Then L.A. Times columnist Steve Lopez profiled Melanie Winter, a Californian who needs hip replacement surgery but does not qualify for Medicaid or have private insurance. She has managed to raise and save the money needed to pay for the surgery and she has negotiated payment plans with the doctors involved. Lopez writes that Ms. Winter does not "trust any reform plan that doesn't remove the profiteering of the insurance and pharmaceutical industries." Perhaps Ms. Winter should chat with Mrs. Beal (oh, except perhaps Mrs. Beal would not be able to hear her well enough over the phone) and see if a socialist medical system lacking that evil "profit" motive really does work better than what we have here. Removing profit is not a solution, but there are many, many other changes that would improve the market mechanisms that can make health care work much more efficiently than it does now.

*****Court Ruling to Celebrate*****

I just read about an intriguing Supreme Court ruling handed down in June. In *Washington v. Washington Education Association (WEA)*, the Court ruled that states may prohibit labor unions that represent government employees from using mandatory dues for political purposes without the express permission of non-union workers who paid those dues. (Some government employees are required to pay a fee for collective bargaining services to the union as a condition of employment even if they choose not to join the union.) The case was brought by the Evergreen Freedom Foundation (EFF), whose president, Bob Wilson, was quoted in the "Budget & Tax News" saying, "The Court understood that the constitutional rights of teachers should be protected and are not superseded by the union's statutory rights. This ruling will help protect non-member teachers from having their agency fees used on union politics against their will." The WEA has already gotten a new law passed to allow them to do an end-run around the ruling, no surprise from a union that is threatened.

MISCELLANY

*****A Good Read*****

While I do not believe our country would be a better place if it were run by trained economists, I am intrigued by the ideas in "The Myth of the Rational Voter: Why Democracies Choose Bad Policies" by Bryan Caplan. Caplan's premise is that voters often cast ballots against their own self-interest and the result is bad policy. Again, without buying that conclusion, his discussion is fascinating. He argues that voters do this for the emotional benefit they receive from voting for a

particular candidate or policy, or because they know that their one vote is highly unlikely to be the one that decides any election. Caplan discusses the differences between ignorant voters and irrational voters, and he explains why people may make decisions differently when they are acting as voters rather than when they are acting as shoppers. Consider that a person shopping for a car may do extensive research so that they can make a purchase that best meets their needs. However, that same person does not do extensive research about the implications of different economic policies and thus votes for candidates who may support outcomes that the voter would not prefer. And Caplan notes, "If voters based their policy preferences on deeply mistaken models of economy, government is likely to perform its bread-and-butter function poorly." The book is interesting and provocative reading, and it explains why Leonard Letter readers have so much influence: the informed voter can sway many who do not take the time to become either informed or rational themselves.

BOE AND LEGISLATIVE DATES

August 14, 2007 --- Board of Equalization meets in Sacramento.

August 20, 2007 --- Legislature reconvenes from Summer Recess (J.R. 51 (a)(3)).

September 3, 2007 --- Labor Day.

September 7, 2007 --- Last day to amend on the Floor (J.R. 61(a)(13), A.R. 69(e)).

September 11-12, 2007 --- Board of Equalization meets in Sacramento.

September 14, 2007 --- Last day for any bill to be passed (J.R. 61(a)(14)). Interim Recess begins on adjournment (J.R. 51(a)(4)).

October 2-4, 2007 --- Board of Equalization meets in Culver City.

October 14, 2007 --- Last day for Governor to sign or veto bills passed by the Legislature on or before Sept. 14 and in the Governor's possession after Sept. 14 (Art. IV, Sec.10(b)(1)).

October 23-24, 2007 --- Board of Equalization meets in Sacramento.

November 11, 2007 --- Veteran's Day (observed by state government on Monday, November 12)

November 14-15, 2007 --- Board of Equalization meets in Sacramento.

NOTABLE DATES/ HISTORY

August 6, 1945 --- The U.S. bomber Enola Gay dropped an atomic weapon on Hiroshima, Japan to hasten an end to WWII.

August 6, 1965 --- The Voting Rights Act was passed after Republican leadership pushed the effort to abolish literacy tests and other measures devised by southern Democrats to prevent African-Americans from voting.

August 7, 1942 --- United States Marines landed at Guadalcanal in the Solomon Islands, making the first assault of U.S. troops on Japanese positions in the Pacific Ocean. U.S. forces captured the island in February of 1943.

August 8, 1992: The United States men's Olympic basketball team, made up of professional players for the first time, defeated Croatia for the gold medal.

August 9, 1945 --- The U.S. bomber Bock's Car dropped an atomic bomb on Nagasaki, Japan. Japan's government surrendered five days later.

August 9, 1974 --- President Richard Nixon, facing impeachment by Congress over the Watergate cover-up, resigned at noon. Vice President Gerald Ford was sworn in as President.

August 10, 1821 --- Missouri was admitted to the Union under the Missouri Compromise of 1820, which allowed slavery within its borders while prohibiting slavery in the rest of the former Louisiana Territory.

August 10, 1831 --- William Driver, a ship's captain from Salem, Massachusetts, used the term "Old Glory" to refer to the American flag.

August 10, 1995 --- Timothy McVeigh and Terry Nichols were indicted for the April bombing of the Murrah federal building in Oklahoma City, killing 168 people and injuring more than 500.

August 11, 1841 --- Fugitive slave Frederick Douglass spoke to a mostly white abolitionist meeting for the first time on Nantucket.

August 11, 1965 --- The first of six days of rioting erupted in Los Angeles' Watts neighborhood.

August 12, 1972 --- The last U.S. ground forces pulled out of Vietnam.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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